PUBLIC NOTICE
FEDERAL COMMUNICATIONS COMMISSION
445 12th STREET, S.W.
WASHINGTON, D.C. 20554 **DA 02-1589**

News media information 202/418-0500 Internet: http://www.fcc.gov TTY: 1-888-835-5322

**July 3, 2002**

# OFFICE OF PLANS AND POLICY AND MEDIA BUREAU RELEASE REVISED DATA SET INVOLVING EXPERIMENTAL ECONOMICS STUDY EXAMINING HORIZONTAL CONCENTRATION IN THE CABLE INDUSTRY

**CS DOCKET NOS. 98-82, 96-85**
**MM DOCKET NOS. 92-264, 94-150, 92-51, 87-154**
**DA 02-733**
**MB DOCKET NO. 02-70**

The Federal Communications Commission's Office of Plans and Policy recently released OPP Working Paper No. 35, "Horizontal Concentration in the Cable Television Industry: An Experimental Analysis" ("Working Paper"), which utilized the methodology of experimental economics to consider the effects that different levels of horizontal concentration among multichannel video programming distributors ("MVPDs") might have on the flow of video programming to consumers. The Media Bureau solicited comment on the Working Paper in connection with the above-captioned proceedings.[1] Follow-up analysis conducted by the authors revealed that the "Most Favored Nation" ("MFN") treatment data contained several computational errors. The Media Bureau is issuing this Public Notice to briefly describe such errors and to release a corrected version of the data and a slightly revised version of the Working Paper.

Under the experiments, the revenue obtained by each seller includes both revenue received from the sale of national advertising time and revenue received from the MVPD (i.e., buyer) for its package of programming. However, the way in which the revenue from the MVPD was reported differed under the MFN and the "Non-MFN" treatments. In the MFN treatment, affiliate revenue was reported in terms of cents per subscriber, whereas in the Non-MFN treatment, affiliate revenue was reported in terms of dollars per transaction. Because of a computational error, this difference resulted in an underestimation of affiliate revenue in the MFN treatment. An additional computational error occurred when revenue of less than 0.5 cents per subscriber was rounded to zero, causing certain transactions to be dropped inadvertently.

The computational errors have been corrected. The corrected data set and the revised Working Paper can be found at www.fcc.gov/opp or www.fcc.gov/mb. The computational errors led to some modest changes in the study results. The following is a list of all substantive changes:

- (Table 7 and Result 3) The MFN and the No MFN treatments generate similar efficiency levels when the market includes either a single "large" cable operator (i.e., 51% market

[1] *See Media Bureau Seeks Comment on Experimental Economics Study Examining Horizontal Concentration in the Cable Industry*, Public Notice, DA 02-1304 (June 3, 2002).

share) or two "major" cable operators (i.e., market shares of 44% and 39%). Previously, the MFN treatment generated lower efficiency levels in these market concentration environments.

- (Figures 3-5 and Result 5) Values for the average buyer's bargaining power under the MFN treatments are adjusted slightly.
- (Tables 8, 10, 11 and 12) Values for the average buyer's bargaining power, DBS operator's bargaining power, average buyers' surplus, and the DBS operator's surplus under the MFN treatment are adjusted downward.
- (Table 13 and Result 14) The percentage of sellers with trading period losses and average loss are adjusted under the MFN treatments. Seller losses are not more common under the MFN treatment than under the No MFN treatment. Previously, data indicated that seller losses were significantly more likely in a market that includes two major cable operators under the MFN treatment.
- (Table 15) The percentage of trading periods in which a given seller incurs a loss and average loss under the MFN treatment are adjusted downward. Results 15 and 16 continue to hold as originally stated.
- (Result 17) Sellers #1 and #2 are more likely to lose money in the MFN treatment than in the No MFN treatment for all concentration treatments. Previously, this result was found to hold for all four sellers.
- (Table 17 and analysis on pages 44-45) A regression model shows that the most popular programming network receives a significantly lower affiliate fee, expressed on a price per subscriber basis, in a market that includes a single large cable operator and several substantially smaller buyers than in a market that includes two "moderately-sized" cable operators (i.e., markets shares of 27% and 24%) and several smaller buyers. The same model shows that there is no statistically significant difference in the affiliate fee obtained by the same popular programming network between a market that includes two "moderately-sized" cable operators and several smaller buyers and a market that includes two major cable operators and a single DBS operator. Previous results showed that this same popular seller received a significantly lower affiliate fee in a market that includes two major cable operators and a single DBS operator than in a market that includes two "moderately-sized" cable operators and several smaller buyers. Previous results also showed there was no difference in the affiliate fee obtained by the same seller in a market that includes a single large cable operator and several substantially smaller buyers than in a market that includes two "moderately-sized" cable operators and several smaller buyers.
- (Table 17 and analysis on page 43) A regression of price per subscriber on buyer size under the MFN treatment shows different coefficients.
- (Tables 18-21 and analysis on pages 45-48) A regression model shows that Seller #3 earns the least amount of profits in a market that includes a single large cable operator and several substantially smaller buyers compared with the other two market environments considered. Previously, Seller #3 only earned a profit in a market that includes two "moderately-sized" cable operators and several smaller buyers. Coefficients for regressions relating to sellers #1, #2 and #4 are also adjusted.

The media contact for this Public Notice is Margo Domon Davenport, (202) 418-2949. The Media Bureau contact is Royce Sherlock, (202) 418-7030. The Office of Plans and Policy contact is Mark Bykowsky, (202) 418-1695.

**-FCC -**